[SIDBI Exam 2016]
Economics terms

Wholesale price index

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Definition: Wholesale Price Index (WPI) represents the price of goods at a wholesale stage i.e. goods that are sold in bulk and traded between organizations instead of consumers. WPI is used as a measure of inflation in some economies.

Description: WPI is used as an important measure of inflation in some countries. Fiscal and monetary policy changes are greatly influenced by changes in WPI. In the United States, Producer Price Index (PPI) is used to measure inflation.WPI is an easy and convenient method to calculate inflation. Inflation rate is the difference between WPI calculated at the beginning and the end of a year. The percentage increase in WPI over a year gives the rate of inflation for that year.

Venture capital

Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital.

Definition: Startup companies with a potential to grow need a certain amount of investment. Wealthy investors like to invest their capital in such businesses with a long-term growth perspective. This capital is known as venture capital and the investors are called venture capitalists.

Description: Such investments are risky as they are illiquid, but are capable of giving impressive returns if invested in the right venture. The returns to the venture capitalists depend upon the growth of the company. Venture capitalists have the power to influence major decisions of the companies they are investing in as it is their money at stake.

Union budget

Union Budget keeps the account of the government's finances for the fiscal year that runs from 1st April to 31st March.

Definition: According to Article 112 of the Indian Constitution, the Union Budget of a year, also referred to as the annual financial statement, is a statement of the estimated receipts and expenditure of the government for that particular year.

Description: Union Budget keeps the account of the government's finances for the fiscal year that runs from 1st April to 31st March. Union Budget is classified into Revenue Budget and Capital Budget.

Revenue budget includes the government's revenue receipts and expenditure. There are two kinds of revenue receipts - tax and non-tax revenue. Revenue expenditure is the expenditure incurred on day to

day functioning of the government and on various services offered to citizens. If revenue expenditure exceeds revenue receipts, the government incurs a revenue deficit.

Capital Budget includes capital receipts and payments of the government. Loans from public, foreign governments and RBI form a major part of the government's capital receipts. Capital expenditure is the expenditure on development of machinery, equipment, building, health facilities, education etc. Fiscal deficit is incurred when the government's total expenditure exceeds its total revenue.

Statutory liquidity ratio

The ratio of liquid assets to net demand and time liabilities (NDTL) is called statutory liquidity ratio (SLR).

Definition: The ratio of liquid assets to net demand and time liabilities (NDTL) is called statutory liquidity ratio (SLR).

Description: Apart from Cash Reserve Ratio (CRR), banks have to maintain a stipulated proportion of their net demand and time liabilities in the form of liquid assets like cash, gold and unencumbered securities. Treasury bills, dated securities issued under market borrowing programme and market stabilization schemes (MSS), etc also form part of the SLR. Banks have to report to the RBI every alternate Friday their SLR maintenance, and pay penalties for failing to maintain SLR as mandated.

Special drawing rights

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Definition: This is a kind of reserve of foreign exchange assets comprising leading currencies globally and created by the International Monetary Fund in the year 1969.

Description: Before its creation, the international community had to face several restrictions in increasing world trade and the level of financial development as gold and US dollars, which were the only means of trade, were in limited quantities. In order to address the issue, SDR was created by the IMF. SDR is often regarded as a 'basket of national currencies' comprising four major currencies of the world - US dollar, Euro, British Pound and Yen (Japan). The composition of this basket of currencies is reviewed every five years wherein the weightage of currencies sometimes get altered.

Sovereign risk

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Definition: A nation is a sovereign entity. Any risk arising on chances of a government failing to make debt repayments or not honouring a loan agreement is a sovereign risk.

Description: Such practices can be resorted to by a government in times of economic or political uncertainty or even to portray an assertive stance misusing its independence. A government can resort to such practices by easily altering any of its laws, thereby causing adverse losses to investors.

Example: Countries like Argentina and Mexico had defaulted on their loan payments in 1970s to a big extent after the oil shock.

Soft loans

A soft loan is basically a loan on comparatively lenient terms and conditions as compared to other loans available in the market.

Definition: A soft loan is basically a loan on comparatively lenient terms and conditions as compared to other loans available in the market. These easier conditions might be in the form of lower interest rates, prolonged repayment duration, etc.

Description: The repayment of these soft loans might also include interest holidays. This process of extending soft loans is also known as soft financing or concessional funding. As the loans extended are at much easier terms, these are generally not provided by private financial institutions. They are primarily provided by government agencies.

Example: The Chinese government had extended a soft loan to Angola in 2004 in return for which Angola gave Beijing oil exploration opportunities in the country.

Soft currency

Soft currency is a currency which is hyper sensitive and fluctuates frequently. Such currencies react very sharply.

Definition: Soft currency is a currency which is hyper sensitive and fluctuates frequently. Such currencies react very sharply to the political or the economic situation of a country.

Description: It is also known as weak currency due to its unstable nature. Such currencies mostly exist in developing countries with relatively unstable governments. Soft currencies cause high volatility in exchange rates as well, making them undesirable by foreign exchange dealers. These currencies are the least preferred for international trade or holding reserves.

Example: Zimbabwean dollar is a classic example of soft currency.

Shareholder value

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Definition: Shareholder value is the value enjoyed by a shareholder by possessing shares of a company. It is the value delivered by the company to the shareholder.

Description: Increasing the shareholder value is of prime importance for the management of a company. So the management must have the interests of shareholders in mind while making decisions. The higher the shareholder value, the better it is for the company and management.
For this to happen, management must exercise efficient decision making so as to earn/increase profits, thereby increasing shareholder value. On the other hand, faulty decision making using unfair tactics might damage shareholder value.

Share

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Definition: The capital of a company is divided into shares. Each share forms a unit of ownership of a company and is offered for sale so as to raise capital for the company.

Description: Shares can be broadly divided into two categories - equity and preference shares. Equity shares give their holders the power to share the earnings/profits in the company as well as a vote in the AGMs of the company. Such a shareholder has to share the profits and also bear the losses incurred by the company.
On the other hand, preference shares earn their holders only dividends, which are fixed, giving no voting rights. Equity shareholders are regarded as the real owners of the company. When the shares are offered for sale directly by the company for the first time, they are offered in the primary market, whereas the trading of shares takes place in the secondary market.

Service tax

Service tax is a tax levied by the government on service providers on certain service transactions, but is actually borne by the customers.

Definition: Service tax is a tax levied by the government on service providers on certain service transactions, but is actually borne by the customers. It is categorized under Indirect Tax and came into existence under the Finance Act, 1994.

Description: In this case, the service provider pays the tax and recovers it from the customer. Service Tax was earlier levied on a specified list of services, but in the 2012 budget, its scope was increased. Services provided by air-conditioned restaurants and short term accommodation provided by hotels, inns, etc. were also included in the list of services.
It is charged to the individual service providers on cash basis, and to companies on accrual basis. This tax is payable only when the value of services provided in a financial year is more than Rs 10 lakh. This tax is not applicable in the state of Jammu & Kashmir.

Seigniorage

Seigniorage is the difference between the value of currency and the cost of producing it. It is the profit earned by the government by printing currency.

Definition: Seigniorage is the difference between the value of currency/money and the cost of producing it. It is essentially the profit earned by the government by printing currency.

Description: It can also be termed as a source of revenue for governments as the value of money printed is generally higher than the cost of producing it. As obvious, if the currency produced values more than the cost involved in its production, the government earns a profit. If the cost involved in its production crosses its value, then the government suffers a loss.

Secondary market

This is the market wherein the trading of securities is done. Secondary market consists of both equity as well as debt markets.

Definition: This is the market wherein the trading of securities is done. Secondary market consists of both equity as well as debt markets.

Description: Securities issued by a company for the first time are offered to the public in the primary market. Once the IPO is done and the stock is listed, they are traded in the secondary market. The main difference between the two is that in the primary market, an investor gets securities directly from the company through IPOs, while in the secondary market, one purchase securities from other investors willing to sell the same. Equity shares, bonds, preference shares, treasury bills, debentures, etc. are some of the key products available in a secondary market. SEBI is the regulator of the same.

Seasonal adjustment

This is a technique aimed at analyzing economic data with the purpose of removing fluctuations that take place as a result of seasonal factors.

Definition: This is a technique aimed at analyzing economic data with the purpose of removing fluctuations that take place as a result of seasonal factors.

Description: Seasonal adjustment of economic/time data plays a crucial role analyzing/judging the general trend. In the world of finance, comparison of economic data is of immense importance in order to ascertain the growth and performance of a company. In this process, seasonal factors might create big fluctuations in the pattern.
For example, sales of air conditioners are at their peak during summers and quite less during winters. Thus, to study the general trend of sales of air conditioners, the data needs to be seasonally adjusted.

Risk management

Risk management refers to the practice of identifying potential risks in advance, analyzing them and taking precautionary steps to reduce/curb the risk.

Definition: In the world of finance, risk management refers to the practice of identifying potential risks in advance, analyzing them and taking precautionary steps to reduce/curb the risk.

Description: When an entity makes an investment decision, it exposes itself to a number of financial risks. The quantum of such risks depends on the type of financial instrument. These financial risks might be in the form of high inflation, volatility in capital markets, recession, bankruptcy, etc.
So, in order to minimize and control the exposure of investment to such risks, fund managers and investors practice risk management. Not giving due importance to risk management while making investment decisions might wreak havoc on investment in times of financial turmoil in an economy. Different levels of risk come attached with different categories of asset classes.

For example, a fixed deposit is considered a less risky investment. On the other hand, investment in equity is considered a risky venture. While practicing risk management, equity investors and fund managers tend to diversify their portfolio so as to minimize the exposure to risk.

Reverse repo rate

Reverse repo rate is the rate at which the central bank of a country (RBI in case of India) borrows money from commercial banks within the country.

Definition: Reverse repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) borrows money from commercial banks within the country. It is a monetary policy instrument which can be used to control the money supply in the country.

Description: An increase in the reverse repo rate will decrease the money supply and vice-versa, other things remaining constant. An increase in reverse repo rate means that commercial banks will get more incentives to park their funds with the RBI, thereby decreasing the supply of money in the market.

Reserve ratio

The percentage of deposits which commercial banks are required to keep as cash according to the directions of the central bank.

Definition: Also known as Cash Reserve Ratio, it is the percentage of deposits which commercial banks are required to keep as cash according to the directions of the central bank.

Description: The reserve ratio is an important tool of the monetary policy of an economy and plays an essential role in regulating the money supply. When the central bank wants to increase money supply in the economy, it lowers the reserve ratio. As a result, commercial banks have higher funds to disburse as loans, thereby increasing the money supply in an economy.
On the other hand, for controlling inflation, the CRR is generally increased, thereby decreasing the lending power of banks, which in turn reduces the money supply in an economy.

Repo rate

Repo rate is the rate at which the central bank of a country (RBI in case of India) lends money to commercial banks in the event of any shortfall of funds.

Definition: Repo rate is the rate at which the central bank of a country (Reserve Bank of India in case of India) lends money to commercial banks in the event of any shortfall of funds. Repo rate is used by monetary authorities to control inflation.

Description: In the event of inflation, central banks increase repo rate as this acts as a disincentive for banks to borrow from the central bank. This ultimately reduces the money supply in the economy and thus helps in arresting inflation.
The central bank takes the contrary position in the event of a fall in inflationary pressures. Repo and reverse repo rates form a part of the liquidity adjustment facility.

Regressive tax

This system of taxation generally benefits the higher sections of the society having higher incomes as they need to pay tax at lesser rates.

Definition: Under this system of taxation, the tax rate diminishes as the taxable amount increases. In other words, there is an inverse relationship between the tax rate and taxable income. The rate of taxation decreases as the income of taxpayers increases.

Description: This system of taxation generally benefits the higher sections of the society having higher incomes as they need to pay tax at lesser rates. On the other hand, people with lesser incomes are burdened with higher rate of taxation.

Example: A person earning Rs 1, 00,000 p.a. might be required to pay taxes at 15% whereas a person earning Rs 5, 00,000 p.a. might be required to pay taxes at 10%.

Recession

Recession is a slowdown or a massive contraction in economic activities. A significant fall in spending generally leads to a recession.

Definition: Recession is a slowdown or a massive contraction in economic activities. A significant fall in spending generally leads to a recession.

Description: Such a slowdown in economic activities may last for some quarters thereby completely hampering the growth of an economy. In such a situation, economic indicators such as GDP, corporate profits, employments, etc., fall.
This creates a mess in the entire economy. To tackle the menace, economies generally react by loosening their monetary policies by infusing more money into the system, i.e., by increasing the money supply.
This is done by reducing the interest rates. Increased spending by the government and decreased taxation are also considered good answers for this problem. The recession which hit the globe in 2008 is the most recent example of a recession.

Real economic growth rate

Real Economic Growth Rate is the rate at which a nation's Gross Domestic product (GDP) changes/grows from one year to another.

Definition: Real Economic Growth Rate is the rate at which a nation's Gross Domestic product (GDP) changes/grows from one year to another. GDP is the market value of all the goods and services produced in a country in a particular time period.

Description: Real Economic Growth Rate takes into account the effects of inflation. Since inflation plays a key role in the GDP of an economy, it is very important to ascertain the effects of inflation on GDP. As a result, the Real Economic Growth Rate takes into account the buying power and is inflation-adjusted. This is the reason it is considered to be a better measure of growth rate than the nominal growth rate.

Purchasing power parity

PPP is used worldwide to compare the income levels in different countries. PPP thus makes it easy to understand and interpret the data of each country.

Definition: The theory aims to determine the adjustments needed to be made in the exchange rates of two currencies to make them at par with the purchasing power of each other. In other words, the expenditure on a similar commodity must be same in both currencies when accounted for exchange rate. The purchasing power of each currency is determined in the process.

Description: Purchasing power parity is used worldwide to compare the income levels in different countries. PPP thus makes it easy to understand and interpret the data of each country.
Example: Let's say that a pair of shoes costs Rs 2500 in India. Then it should cost $50 in America when the exchange rate is 50 between the dollar and the rupee.

Proportional tax

Proportional tax is the taxing mechanism in which the taxing authority charges the same rate of tax from each taxpayer, irrespective of income.

Definition: Proportional tax is the taxing mechanism in which the taxing authority charges the same rate of tax from each taxpayer, irrespective of income. This means that lower class, or middle class, or upper class people pay the same amount of tax. Since the tax is charged at a flat rate for everyone, whether earning higher income or lower income, it is also called flat tax.

Description: Proportional tax is based on the theory that since everybody is equal, taxes should also be charged the same way. It is unfair to charge more from anybody having a higher income. The government charges a flat rate of 30% on the income earned by the companies in India, exclusive of surcharge and educational cess. A surcharge of 10% and a cess of (2%+ SHEC 1%) are collected on the tax amount collected.

Property tax

Property tax is the annual amount paid by a land owner to the local government or the municipal corporation of his area.

Definition: Property tax is the annual amount paid by a land owner to the local government or the municipal corporation of his area. The property includes all tangible real estate property, his house, office building and the property he has rented to others.

Description: In India, the municipal corporation of a particular area assesses and imposes the property tax annually or semi annually. The tax amount is based on the area, construction, property size, building etc. The collected amount is mainly used for public services like repairing roads, construction schools, buildings, sanitation Central government properties and vacant property are generally exempt. Property tax comprises taxes like lighting tax, water tax and drainage tax.

Progressive tax

Progressive tax is the taxing mechanism in which the taxing authority charges more taxes as the income of the taxpayer increases.

Definition: Progressive tax is the taxing mechanism in which the taxing authority charges more taxes as the income of the taxpayer increases. A higher tax is collected from the taxpayers who earn more and lower taxes from taxpayers earning less. The government uses a progressive tax mechanism.

Description: Under progressive taxes, it is believed that people who earn more should pay more. The income tax is divided into slabs. As the income of the tax payer crosses a benchmark income, a new rate of tax (higher than before) is charged to him.

Non Performing Assets

A non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

Definition: A non performing asset (NPA) is a loan or advance for which the principal or interest payment remained overdue for a period of 90 days.

Description: Banks are required to classify NPAs further into Substandard, Doubtful and Loss assets.

1. Substandard assets: Assets which has remained NPA for a period less than or equal to 12 months.

2. Doubtful assets: An asset would be classified as doubtful if it has remained in the substandard category for a period of 12 months.

3. Loss assets: As per RBI, "Loss asset is considered uncollectible and of such little value that its continuance as a bankable asset is not warranted, although there may be some salvage or recovery value."

NET NATIONAL INCOME

Net National Income is Gross National Income or Gross National Product less depreciation

Definition: Net National Income is Gross National Income or Gross National Product less depreciation.

Description: Gross National Product (GNP) is Gross Domestic Product (GDP) plus net factor income from abroad. It measures the monetary value of all the finished goods and services produced by the country's factors of production irrespective of their location.
Only the finished or final goods are considered as factoring intermediate goods used for manufacturing would amount to double counting. It includes taxes but does not include subsidies. When depreciation is deducted from the GNP, we get Net National Income.

MONOPOLY

A market structure characterized by a single seller, selling a unique product in the market.

Definition: A market structure characterized by a single seller, selling a unique product in the market. In a monopoly market, the seller faces no competition, as he is the sole seller of goods with no close substitute.

Description: In a monopoly market, factors like government license, ownership of resources, copyright and patent and high starting cost make an entity a single seller of goods. All these factors restrict the

entry of other sellers in the market.
Monopolies also possess some information that is not known to other sellers.
Characteristics associated with a monopoly market make the single seller the market controller as well as the price maker. He enjoys the power of setting the price for his goods.

MONEY SUPPLY

The total stock of money circulating in an economy is the money supply.

Definition: The total stock of money circulating in an economy is the money supply. The circulating money involves the currency, printed notes, money in the deposit accounts and in the form of other liquid assets.

Description: Valuation and analysis of the money supply help the economist and policy makers to frame the policy or to alter the existing policy of increasing or reducing the supply of money. The valuation is important as it ultimately affects the business cycle and thereby affects the economy.
Periodically, every country's central bank publishes the money supply data based on the monetary aggregates set by them. In India, the Reserve Bank of India follows M0, M1, M2, M3 and M4 monetary aggregates.

MONEY MARKET

One of the sections of a financial market where securities and financial instruments with short-term maturities are traded is called the money market.

Definition: One of the sections of a financial market where securities and financial instruments with short-term maturities are traded is called the money market. Financial assets like treasury bills, certificates of deposits, commercial paper and bankers' acceptance are some of the short-term debt securities traded in the money market.

Description: The instruments traded in the money market have a short-term maturity period ranging from 30 days to a year. Hence this market is the best source to invest in liquid assets.
The only demerit accompanying the money market is the disorganization. Unlike organized markets, e.g. capital markets, the money market is unregulated and informal. In addition, this market gives lesser returns to the investor. However, the money market is regarded as safe.

MONETARY POLICY

Monetary policy is the macroeconomic policy laid down by the central bank.
Definition: Monetary policy is the macroeconomic policy laid down by the central bank. It involves management of money supply and interest rate and is the demand side economic policy used by the government of a country to achieve macroeconomic objectives like inflation, consumption, growth and liquidity.
Description: In India, monetary policy of the Reserve Bank of India is aimed at managing the quantity of money in order to meet the requirements of different sectors of the economy and to increase the pace of economic growth.

The RBI implements the monetary policy through open market operations, bank rate policy, reserve system, credit control policy, and moral persuasion and through many other instruments. Using any of these instruments will lead to changes in the interest rate, or the money supply in the economy. Monetary policy can be expansionary and contractionary in nature.

Increasing money supply and reducing interest rates indicate an expansionary policy. The reverse of this is a contractionary monetary policy.
For instance, liquidity is important for an economy to spur growth. To maintain liquidity, the RBI is dependent on the monetary policy. By purchasing bonds through open market operations, the RBI introduces money in the system and reduces the interest rate.

MICRO ECONOMICS

Microeconomics is the study of individuals, households and firms' behavior in decision making and allocation of resources.

Definition: Microeconomics is the study of individuals, households and firms' behavior in decision making and allocation of resources. It generally applies to markets of goods and services and deals with individual and economic issues.

Description: Microeconomic study deals with what choices people make, what factors influence their choices and how their decisions affect the goods markets by affecting the price, the supply and demand.

MSF

Marginal standing facility is a window for banks to borrow from the Reserve Bank of India in an emergency situation when inter-bank liquidity dries up completely.

Definition: Marginal standing facility (MSF) is a window for banks to borrow from the Reserve Bank of India in an emergency situation when inter-bank liquidity dries up completely.
Description: Banks borrow from the central bank by pledging government securities at a rate higher than the repo rate under liquidity adjustment facility or LAF in short. The MSF rate is pegged 100 basis points or a percentage point above the repo rate. Under MSF, banks can borrow funds up to one percentage of their net demand and time liabilities (NDTL).

MACROECONOMICS

Macroeconomics is the branch of economics that studies the behavior and performance of an economy as a whole.

Definition: Macroeconomics is the branch of economics that studies the behavior and performance of an economy as a whole. It focuses on the aggregate changes in the economy such as unemployment, growth rate, gross domestic product and inflation.

Description: Macroeconomics analyzes all aggregate indicators and the microeconomic factors that influence the economy. Government and corporations use macroeconomic models to help in formulating of economic policies and strategies.

LIQUID ASSETS

An asset is said to be liquid if it is easy to sell or convert into cash without any loss in its value.

Definition: An asset is said to be liquid if it is easy to sell or convert into cash without any loss in its value. By definition, bank notes and checking accounts are the most liquid assets.

Description: A liquid asset allows any individual or a company to access cash at any time they want. At the time of investing, the investor must keep some of the liquid assets in his portfolio so that he can

have an easy hand on his money during an emergency. Cash is a highly liquid asset followed by the banking accounts, checkable account, short-term promissory notes, treasury bills and other government bonds.

LIQUIDITY

Liquidity means how quickly you can get your hands on your cash.

Definition: Liquidity means how quickly you can get your hands on your cash. In simpler terms, liquidity is to get your money whenever you need it.

Description: Liquidity might be your emergency savings account or the cash lying with you that you can access in case of any unforeseen happening or any financial setback. Liquidity also plays an important role as it allows you to seize opportunities.
If you have cash and easy access to fund and a great deal comes along, then it's easier for you to cease that opportunity. Cash, savings account, checkable account are liquid assets because they can be easily converted into cash as and when required.

INVISIBLE HAND

The un-observable market force that helps the demand and supply of goods in a free market to reach equilibrium automatically is the invisible hand.

Definition: The unobservable market force that helps the demand and supply of goods in a free market to reach equilibrium automatically is the invisible hand.

Description: The phrase invisible hand was introduced by Adam Smith in his book 'The Wealth of Nations'. He assumed that an economy can work well in a free market scenario where everyone will work for his/her own interest.
He explained that an economy will comparatively work and function well if the government will leave people alone to buy and sell freely among themselves. He suggested that if people were allowed to trade freely, self interested traders present in the market would compete with each other, leading markets towards the positive output with the help of an invisible hand.
In a free market scenario where there are no regulations or restrictions imposed by the government, if someone charges less, the customer will buy from him. Therefore, you have to lower your price or offer something better than your competitor. Whenever enough people demand something, it will be supplied by the market and everyone will be happy. The seller end up getting the price and the buyer will get better goods at the desired price.

INFLATION

Inflation is the percentage change in the value of the Consumer Price Index (WPI) on a year-on year basis.

Definition: Inflation is the percentage change in the value of the consumer Price Index (WPI) on a year-on year basis. It effectively measures the change in the prices of a basket of goods and services in a year. In India, inflation is calculated by taking the CPI as base.

Formula for calculating Inflation=

(CPI in month of current year-CPI in same month of previous year)

-- X 100
CPI in same month of previous year

Description: Inflation occurs due to an imbalance between demand and supply of money, changes in production and distribution cost or increase in taxes on products. When economy experiences inflation, i.e. when the price level of goods and services rises, the value of currency reduces. This means now each unit of currency buys fewer goods and services.
It has its worst impact on consumers. High prices of day-to-day goods make it difficult for consumers to afford even the basic commodities in life. This leaves them with no choice but to ask for higher incomes. Hence the government tries to keep inflation under control.
Contrary to its negative effects, a moderate level of inflation characterizes a good economy. An inflation rate of 2 or 3% is beneficial for an economy as it encourages people to buy more and borrow more, because during times of lower inflation, the level of interest rate also remains low. Hence the government as well as the central bank always strive to achieve a limited level of inflation.

HDI

The Human Development Index (HDI) is a statistical tool used to measure a country's overall achievement in its social and economic dimensions.

Definition: The Human Development Index (HDI) is a statistical tool used to measure a country's overall achievement in its social and economic dimensions. The social and economic dimensions of a country are based on the health of people, their level of education attainment and their standard of living.

Description: Pakistani economist Mahbub ul Haq created HDI in 1990 which was further used to measure the country's development by the United Nations Development Program (UNDP). Calculation of the index combines four major indicators: life expectancy for health, expected years of schooling, mean of years of schooling for education and Gross National Income per capita for standard of living.
Every year UNDP ranks countries based on the HDI report released in their annual report. HDI is one of the best tools to keep track of the level of development of a country, as it combines all major social and economic indicators that are responsible for economic development.

FOREIGN EXCHANGE RESERVES

Forex reserves are foreign currency assets held by the central banks of countries.

Definition: Forex reserves are foreign currency assets held by the central banks of countries.

Description: These assets include foreign marketable securities, monetary gold, special drawing rights (SDRs) and reserve position in the IMF. The main purpose of holding foreign exchange reserves is to make international payments and hedge against exchange rate risks.

GNP

Gross National Product (GNP) is Gross Domestic Product (GDP) plus net factor income from abroad.

Definition: Gross National Product (GNP) is Gross Domestic Product (GDP) plus net factor income from abroad.

Description: GNP measures the monetary value of all the finished goods and services produced by the country's factors of production irrespective of their location. Only the finished or final goods are considered as factoring intermediate goods used for manufacturing would amount to double counting. It includes taxes but does not include subsidies.

EXCHANGE RATE

Exchange rate is the price of one currency in terms of another currency.

Definition: Exchange rate is the price of one currency in terms of another currency.

Description: Exchange rates can be either fixed or floating. Fixed exchange rates are decided by central banks of a country whereas floating exchange rates are decided by the mechanism of market demand and supply.

EASE OF DOING BUSINESS

Ease of doing business is an index published by the World Bank.

Definition: Ease of doing business is an index published by the World Bank. It is an aggregate figure that includes different parameters which define the ease of doing business in a country.

Description: It is computed by aggregating the distance to frontier scores of different economies. The distance to frontier score uses the 'regulatory best practices' for doing business as the parameter and benchmark economies according to that parameter.
For each of the indicators that form a part of the statistic 'Ease of doing business,' a distance to frontier score is computed and all the scores are aggregated. The aggregated score becomes the Ease of doing business index. Indicators for which distance to frontier is computed include construction permits, registration, getting credit, tax payment mechanism etc. Countries are ranked as per the index.

DEFLATION

When the overall price level decreases so that inflation rate becomes negative, it is called deflation. It is the opposite of inflation.

Definition: When the overall price level decreases so that inflation rate becomes negative, it is called deflation. It is the opposite of the often-encountered inflation.

Description: A reduction in money supply or credit availability is the reason for deflation in most cases. Reduced investment spending by government or individuals may also lead to this situation. Deflation leads to a problem of increased unemployment due to slack in demand.Central banks aim to keep the overall price level stable by avoiding situations of severe deflation/inflation. They may infuse a higher money supply into the economy to counter- balance the deflationary impact. In most cases, a depression occurs when the supply of goods is more than that of money.
Deflation is different from disinflation as the latter implies decrease in the level of inflation whereas on the other hand deflation implies negative inflation.

DEPRECIATION

The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation.

Definition: The monetary value of an asset decreases over time due to use, wear and tear or obsolescence. This decrease is measured as depreciation.

Description: Depreciation, i.e. a decrease in an asset's value, may be caused by a number of other factors as well such as unfavorable market conditions, etc. Machinery, equipment, currency are some examples of assets that are likely to depreciate over a specific period of time. Opposite of depreciation is appreciation which is increase in the value of an asset over a period of time.
Accounting estimates the decrease in value using the information regarding the useful life of the asset. This is useful for estimation of property value for taxation purposes like property tax etc. For such assets like real estate, market and economic conditions are likely to be crucial such as in cases of economic downturn.

CPI

A comprehensive measure used for estimation of price changes in a basket of goods and services representative of consumption expenditure is called consumer price index.

Definition: A comprehensive measure used for estimation of price changes in a basket of goods and services representative of consumption expenditure in an economy is called consumer price index.

Description: The calculation involved in the estimation of CPI is quite rigorous. Various categories and sub-categories have been made for classifying consumption items and on the basis of consumer categories like urban or rural. Based on these indices and sub indices obtained, the final overall index of price is calculated mostly by national statistical agencies. It is one of the most important statistics for an economy and is generally based on the weighted average of the prices of commodities. It gives an idea of the cost of living.
Inflation is measured using CPI. The percentage change in this index over a period of time gives the amount of inflation over that specific period, i.e. the increase in prices of a representative basket of goods consumed.

CRR

Cash Reserve Ratio is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves with the central bank.

Definition: Cash Reserve Ratio (CRR) is a specified minimum fraction of the total deposits of customers, which commercial banks have to hold as reserves either in cash or as deposits with the central bank. CRR is set according to the guidelines of the central bank of a country.

Description: The amount specified as the CRR is held in cash and cash equivalents, is stored in bank vaults or parked with the Reserve Bank of India. The aim here is to ensure that banks do not run out of cash to meet the payment demands of their depositors. CRR is a crucial monetary policy tool and is used for controlling money supply in an economy. CRR specifications give greater control to the central bank over money supply. Commercial banks have to hold only some specified part of the total deposits as reserves. This is called fractional reserve banking.

CAPITAL ACCOUNT

Capital account can be regarded as one of the primary components of the balance of payments of a nation.

Definition: Capital account can be regarded as one of the primary components of the balance of payments of a nation. It gives a summary of the capital expenditure and income for a country.

Description: The capital expenditure and income is tracked by way of funds in the form of investments and loans flowing in and out of an economy. This account comprises foreign direct investments, portfolio investments, etc. It gives a summary of the net flow of both private and public investment into an economy.
A capital account deficit shows that more money is flowing out of the economy along with increase in its ownership of foreign assets and vice-versa in case of a surplus. The balance of payments contains the current account (which provides a summary of the trade of goods and services) in addition to the capital account which records all capital transactions.

CAR

Capital Adequacy Ratio is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities.

Definition: Capital Adequacy Ratio (CAR) is the ratio of a bank's capital in relation to its risk weighted assets and current liabilities. It is decided by central banks and bank regulators to prevent commercial banks from taking excess leverage and becoming insolvent in the process.
Description: It is measured as

Capital Adequacy Ratio = (Tier I + Tier II + Tier III (Capital funds)) /Risk weighted assets

The risk weighted assets take into account credit risk, market risk and operational risk.

The Basel III norms stipulated a capital to risk weighted assets of 8%. However, as per RBI norms, Indian scheduled commercial banks are required to maintain a CAR of 9% while Indian public sector banks are emphasized to maintain a CAR of 12%.

CALL MONEY MARKET

Call money rate is the rate at which short term funds are borrowed and lent in the money market.

Definition: Call money rate is the rate at which short term funds are borrowed and lent in the money market.

Description: The duration of the call money loan is 1 day. Banks resort to these type of loans to fill the asset liability mismatch, comply with the statutory CRR and SLR requirements and to meet the sudden demand of funds. RBI, banks, primary dealers etc are the participants of the call money market. Demand and supply of liquidity affect the call money rate. A tight liquidity condition leads to a rise in call money rate and vice versa.

BALANCE OF PAYMENT

According to the RBI, balance of payment is a statistical statement that shows the transaction in goods, services and income between an economy and the rest of the world.

Definition: According to the RBI, balance of payment is a statistical statement that shows

1. The transaction in goods, services and income between an economy and the rest of the world,
2. Changes of ownership and other changes in that economy's monetary gold, special drawing rights (SDRs), and financial claims on and liabilities to the rest of the world, and
3. Unrequited transfers.

Description: The transactions in BOP are categorised in
a) Current account showing export and import of visible (also called merchandise) and invisibles (also called non-merchandise). Invisibles take into account services, transfers and income.
b) Capital account showing a capital expenditure and income for a country. It gives a summary of the net flow of both private and public investment into an economy. External commercial borrowing (ECB), foreign direct investment, foreign portfolio investment, etc form a part of capital account.
c) Errors and omissions: Sometimes the balance of payment does not balance. This imbalance is shown in the BOP as errors and omissions. BOP is compiled using the double entry book keeping system consisting assets and liabilities.

BANK RATE

Bank rate is the rate charged by the central bank for lending funds to commercial banks.

Definition: Bank rate is the rate charged by the central bank for lending funds to commercial banks.

Description: Bank rates influence lending rates of commercial banks. Higher bank rate will translate to higher lending rates by the banks. In order to curb liquidity, the central bank can resort to raising the bank rate and vice versa.

BASE RATE

Base rate is the minimum rate set by the Reserve Bank of India below which banks are not allowed to lend to its customers.

Definition: Base rate is the minimum rate set by the Reserve Bank of India below which banks are not allowed to lend to its customers.

Description: Base rate is decided in order to enhance transparency in the credit market and ensure that banks pass on the lower cost of fund to their customers. Loan pricing will be done by adding base rate and a suitable spread depending on the credit risk premium.

[All the best by Ur GK buddy Suryansh]